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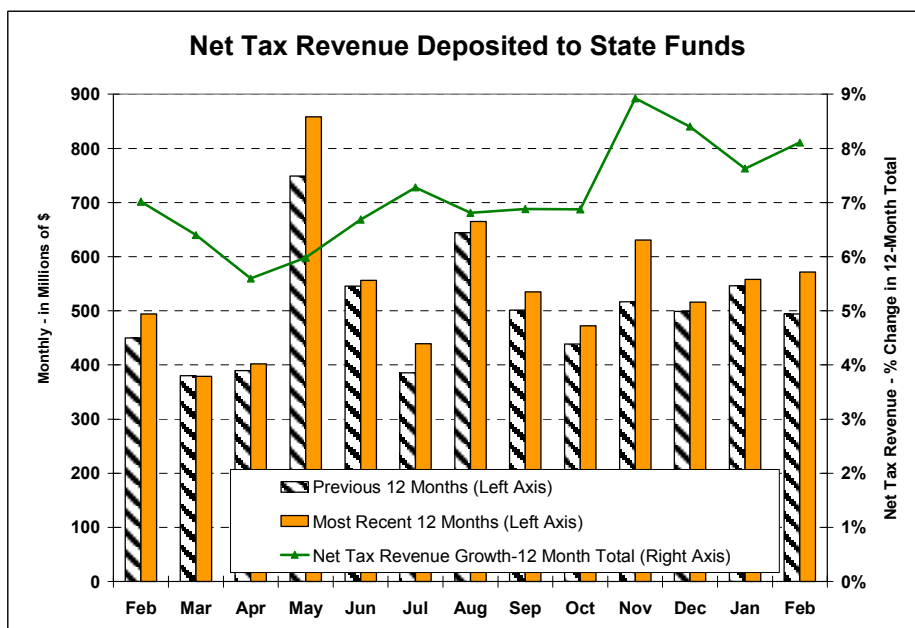
ADMINISTRATIVE SERVICES
 TIMOTHY C. FALLER

MEMORANDUM

TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives
 FROM: Jeff Robinson
 Shawn Snyder
 DATE: March 25, 2008

Twelve-month Total Net Tax Receipts Through February 29, 2008

The attached spreadsheet presents net State tax receipts for the 12-month period ending February 2008 with comparisons to the previous 12 months. February 2007 to February 2008 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those tax receipts.



Month of February Comparison

February net tax receipts totaled \$571.2 million, an increase of \$76.6 million (15.5%) compared to February 2007. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$17.9 million, 11.4%) – Gross receipts were up \$43.2 million while Income Tax refunds increased \$25.3 million for the month.

- Corporate Income Tax (positive \$21.4 million, 301.4%) – Gross receipts increased \$23.2 million and refunds increased \$1.8 million.
- Sales/Use Tax (positive \$22.8 million, 8.8%) – General Fund Gross Sales/Use Tax receipts increased \$22.4 million and Use Tax deposited to the Road Use Fund increased \$0.7 million. Refunds issued for the month increased \$0.3 million. General Fund Sales/Use Tax receipts were positively impacted in February by tax due date issues that reduced January 2008 deposits.
- Fuel Tax (negative \$3.3 million, - 9.9%) – Gross Fuel Tax revenue decreased \$1.2 million while refunds processed in the month increased \$2.1 million.
- Cigarette & Tobacco Taxes (positive \$10.6 million, 155.9%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending February 2008, net revenue from all taxes deposited to State funds totaled \$6.583 billion, an increase of \$493.6 million (8.1%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$259.2 million, 10.2%) – Growth has generally been strong in all three components of Individual Income Tax receipts, withholding, estimate payments, and payments with returns. Growth has been offset somewhat by increased refunds.
- Corporate Tax (positive \$42.1 million, 13.3%) – Corporate Tax has shown strong growth since 2003. The rate of growth tapered off for nine months but February reversed the trend.
- Sales/Use Tax (positive \$67.1 million, 3.1%) – The rate of Sales/Use Tax growth has been volatile over the past 14 months. Local Option Sales Tax deposit and withdrawal timing issues have caused the year-over-year growth rate to fluctuate between 0.1% and 3.9% over that time period.
- Fuel Tax (positive \$11.0 million, 2.5%) – Net Motor Fuel Tax revenue has been flat to slightly positive over the past two years, likely the result of higher fuel prices reducing the growth in fuel demand.
- Gambling Tax (positive \$12.8 million, 4.5%).
- Cigarette and Tobacco Tax (positive \$136.4 million, 138.5%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007.
- Insurance Premium Tax (negative \$31.9 million, - 24.0%) – The Insurance Premium Tax rate is being reduced over multiple years. Calendar year 2007 was the first year all premiums were taxed at the final 1.0% rate. The use of tax credits may also be impacting this revenue source.

Tax Spotlight – Real Estate Transfer Tax

The transfer of real estate is taxed under the authority of Chapter 428A, Code of Iowa. The tax was first effective July 1965, and the current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

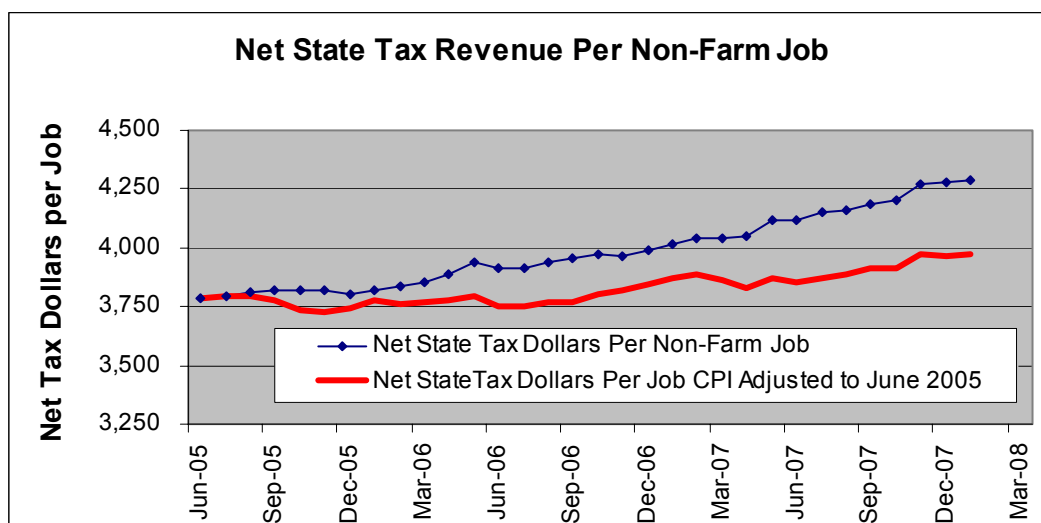
The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the 10th day of each month for tax collected during the preceding month.

The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 95.00% is deposited in the State General Fund and 5.00% goes to the Shelter Assistance Fund. The Real Estate Transfer Tax dollars reflected in this report do not include the portion retained by counties.

The Shelter Assistance Fund is administered by the Department of Economic Development (see Section 15.349, Code of Iowa). Money in the fund may be used for rehabilitation, expansion, or operating cost of group home shelters for the homeless and domestic violence shelters. Of the moneys in the Fund, not less than \$546,000 shall be spent annually on homeless shelter projects.

Tax Revenue and Employment

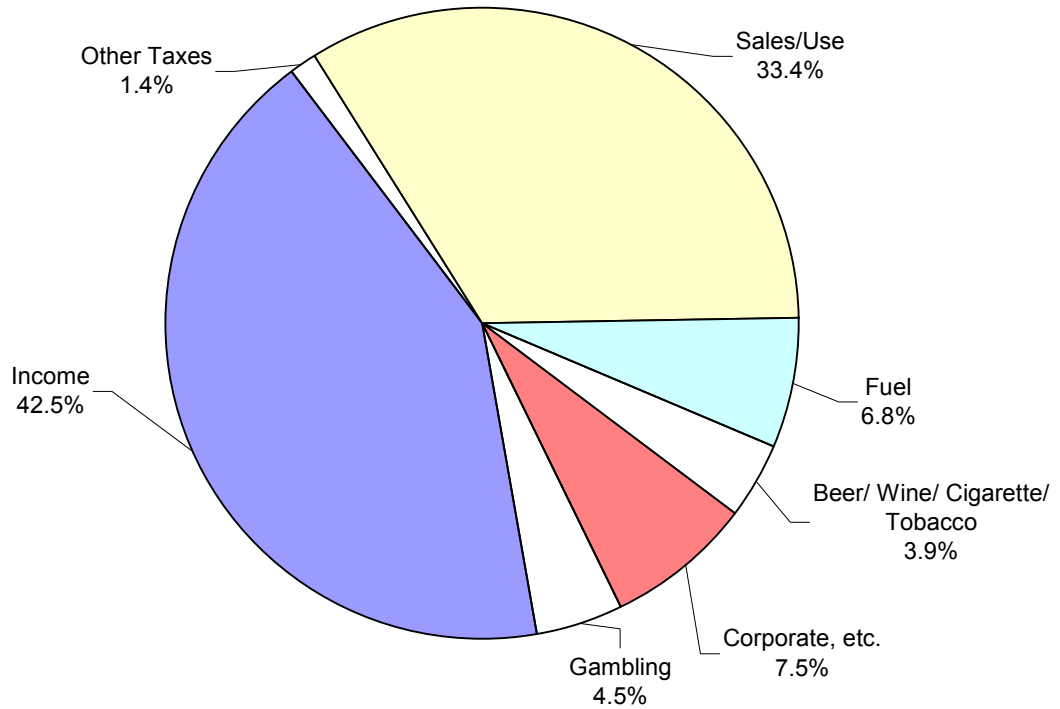
The average reading for Iowa non-farm employment over the 12 months ending January 2008 is 1,517,800, and net State tax receipts over the same 12 months totaled \$6.506 billion, or \$4,289 per non-farm job. This is \$499 (13.2%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 8.5%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.8% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending February 2008

Net Revenue = \$6.583 Billion

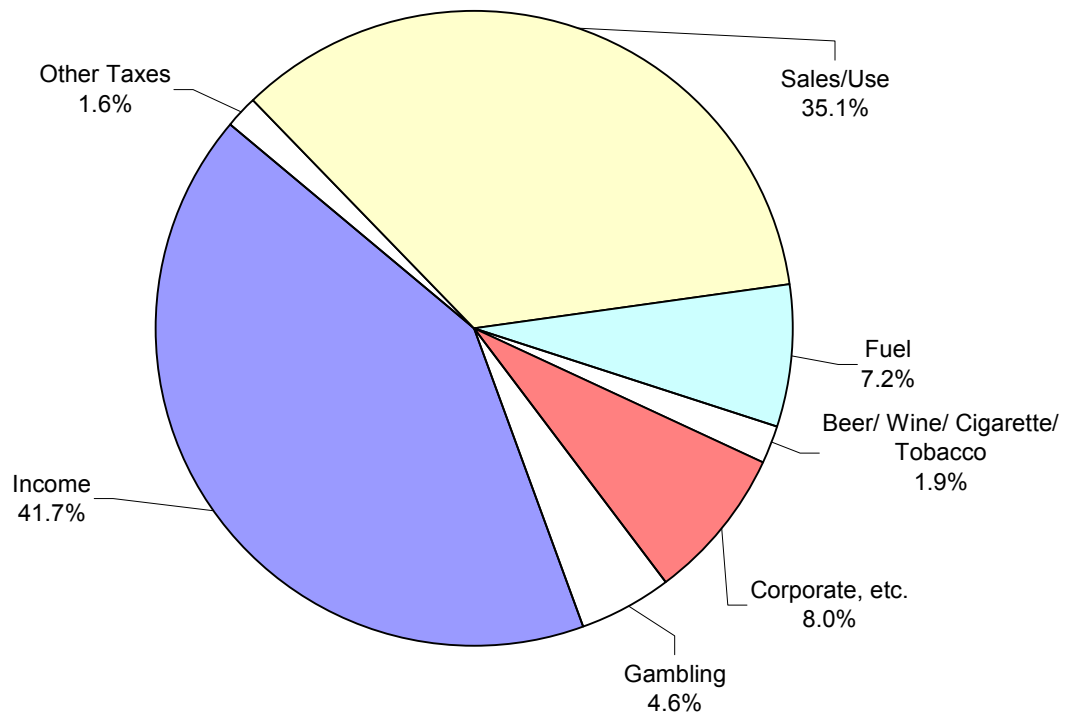
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending February 2007

Net Revenue = \$6.090 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of February 2007	Month of February 2008	February \$ Change	February % Change
Banking	\$ 34.8	\$ 31.5	\$ - 3.3	-9.5%	\$ 0.3	\$ 1.0	\$ 0.7	233.3%
Beer & Wine	20.2	20.6	0.4	2.0%	1.3	1.4	0.1	7.7%
Cigarette & Tobacco	98.5	234.9	136.4	138.5%	6.8	17.4	10.6	155.9%
Corporate Income	316.8	358.9	42.1	13.3%	7.1	28.5	21.4	301.4%
Fuel	436.9	447.9	11.0	2.5%	33.2	29.9	- 3.3	-9.9%
Gambling	281.4	294.2	12.8	4.5%	22.2	23.6	1.4	6.3%
Individual Income	2,538.5	2,797.7	259.2	10.2%	157.0	174.9	17.9	11.4%
Inheritance	72.3	77.1	4.8	6.6%	3.6	6.2	2.6	72.2%
Insurance	132.7	100.8	- 31.9	-24.0%	1.4	4.5	3.1	221.4%
Other Taxes	4.3	- 0.4	- 4.7	-109.3%	0.1	- 0.4	- 0.5	-500.0%
Real Estate Transfer	18.4	18.2	- 0.2	-1.1%	1.5	1.3	- 0.2	-13.3%
Sales/Use	2,135.0	2,202.1	67.1	3.1%	260.1	282.9	22.8	8.8%
Total Net Taxes	\$ 6,089.8	\$ 6,583.4	\$ 493.6	8.1%	\$ 494.6	\$ 571.2	\$ 76.6	15.5%
Gross Tax & Refunds								
Gross Tax	\$ 6,730.0	\$ 7,288.8	\$ 558.8	8.3%	\$ 610.5	\$ 716.8	\$ 106.3	17.4%
Tax Refunds	\$ - 640.2	\$ - 705.4	\$ - 65.2	10.2%	\$ - 116.0	\$ - 145.5	\$ - 29.5	25.4%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,143.0	\$ 5,611.8	\$ 468.8	9.1%	\$ 415.9	\$ 494.3	\$ 78.4	18.9%
Road Use Tax Fund	\$ 684.5	\$ 704.6	\$ 20.1	2.9%	\$ 55.7	\$ 53.2	\$ - 2.5	-4.5%
Non-GF Gambling	\$ 222.5	\$ 233.3	\$ 10.8	4.9%	\$ 22.2	\$ 23.3	\$ 1.1	5.0%
Other State Funds	\$ 39.8	\$ 33.7	\$ - 6.1	-15.3%	\$ 0.6	\$ 0.5	\$ - 0.1	-16.7%
Local Option Taxes *	\$ 630.1	\$ 693.9	\$ 63.8	10.1%	\$ 52.3	\$ 56.6	\$ 4.3	8.2%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

Beer & Wine Tax: Tax on beer is deposited to the State General Fund. The tax on wine is deposited to the Liquor Control Fund and a Department of Economic Development Fund. Prior to FY 2008, a portion was deposited to a Fund controlled by the Department of Agriculture and Land Stewardship.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All Corporate Tax is deposited to the State General Fund.

Motor Fuel Tax: All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All Inheritance Tax is deposited to the State General Fund.

Insurance Premium Tax: All Insurance Premium Tax is deposited to the State General Fund.

Other Taxes: Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real Estate Transfer Tax: Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% of its share to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/Use Tax: General Sales/Use tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.